



Australian Government

Department of Climate Change, Energy,  
the Environment and Water

# Implementation Design Paper

## Capacity Investment Scheme



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CONTAINS

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### **Disclaimer**

The Commonwealth of Australia, as represented by the Department of Climate Change, Energy, the Environment and Water, has produced this publication to provide high-level and initial guidance on the proposed national rollout of the Capacity Investment Scheme (CIS). The national rollout of CIS is presently under development and the information contained in this publication is subject to change. This publication does not indicate commitment by the Australian Government to a particular course of action in relation to the CIS or otherwise.

Any transaction implemented under the national rollout of the CIS will have its own terms set out in relevant disclosure and process documents. The reader should make their own inquiries of all relevant information and take necessary legal and other professional advice, before taking any action.

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### **Acknowledgement of Country**

We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past and present.

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# Summary

- **The Capacity Investment Scheme (CIS) will feature a series of competitive tenders for renewable capacity and clean dispatchable capacity projects to deliver an additional 32 GW of capacity by 2030 with a view to:**
  - **filling expected generation and reliability gaps as electricity demand grows and ageing coal power stations exit**
  - **supporting the delivery of the Australian Government’s 82% renewable electricity by 2030 target.**

This design paper focuses on the following key elements for the purpose of the Australian Government gathering targeted stakeholder feedback:

- **Implementation design:** Detail on the proposed implementation plan for the expanded CIS, including an indicative tender schedule and overview of the CIS tender assessment process.
- **Products:** The proposed design of the two revenue underwriting agreements (CISAs) planned to be offered in the national CIS tenders, for renewable capacity and clean dispatchable capacity projects.

The paper also shares findings from the August 2023 consultation process on the proposed CIS design and how these have influenced the design of the clean dispatchable tenders.

Targeted questions relating to the proposed implementation design and products are set out in this paper – we encourage stakeholders to provide their feedback.

## Western Australia and the Northern Territory

In light of the different jurisdictional market settings, including the existence of the Reserve Capacity Mechanism in the Wholesale Electricity Market (WEM) in Western Australia (WA), the implementation of the CIS has been considered separately, for WA and a separate design paper will be published for the implementation of the CIS in the WEM. Unless expressly specified, readers are advised to interpret all references in this paper as about CIS National Electricity Market (NEM) tenders.

Options to support the delivery of renewable capacity and clean dispatchable capacity in the Northern Territory are also being considered separately.

# Capacity Investment Scheme – a national framework

The Capacity Investment Scheme (CIS) is a national framework and an Australian Government initiative to encourage new investment in renewable capacity, such as wind and solar, and clean dispatchable capacity, for example, battery storage. The scheme aims to support the delivery of a more reliable, affordable, low-emissions energy system for all Australians.

The CIS will be implemented through a series of competitive tenders (CIS tenders) with the objective of:

- Delivering an additional 32 GW of new capacity by 2030
- Supporting electricity generation growth and reliability in Australia’s rapidly changing electricity markets as ageing thermal power stations exit
- Supporting the delivery of the Australian Government’s 82% renewable electricity by 2030 target.

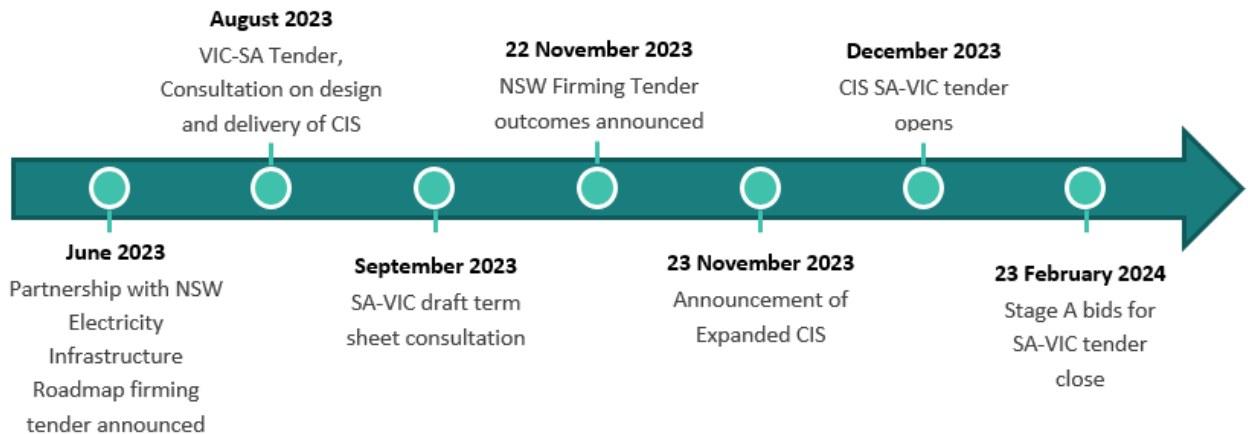
Successful projects of a CIS tender will be awarded Capacity Investment Scheme Agreements (CISAs) – long-term Australian Government underwriting agreements with an agreed revenue ‘floor’ and ‘ceiling.’ This design provides long-term revenue certainty to mitigate financial risks for investors, and in turn, encourages more investment when, and where, it is needed.

The Australian Government will also negotiate new bilateral Renewable Energy Transformation Agreements (RETAs) with state and territory governments under the National Energy Transformation Partnership. RETAs will reflect the unique needs of each state and territory and, through these agreements, jurisdictions will work alongside the Australian Government to support Australia’s renewable energy transformation.

## **1.1 Our progress in delivering the CIS**

A pilot CIS tender for dispatchable capacity in South Australia-Victoria is presently underway and the CIS contributed to a joint Commonwealth/NSW tender in partnership with the NSW Electricity Infrastructure Roadmap.

**Figure 1 Progress in delivering the CIS**



### 1.1.1 Public consultation

Stakeholders are supportive of the CIS and key design principles.

In August and September 2023, the Department of Climate Change, Energy, the Environment and Water (DCCEEW):

- Released a CIS design paper for public consultation.
- Published the SA-VIC tender [Draft Term Sheet](#).
- Held a series of consultation forums, including engagements with peak bodies, webinars, and responding to email queries.

Feedback received thus far has been considered for the current SA-VIC pilot tender, which serves as a test case for the future dispatchable CIS design and helps inform the CIS renewable capacity tender design.

Appendix 1 outlines the key issues raised during the consultation process and how they have been addressed in the SA-VIC pilot tender, as well as future tenders.

### 1.1.2 Stage 1 delivery

Stage 1 of the CIS includes:

- Commonwealth/NSW pilot tender in partnership with the NSW Electricity Infrastructure Roadmap (NSW Firming Tender).
- The pilot tender for clean dispatchable capacity in South Australia and Victoria (SA-VIC).



## NSW Firming Tender

Following the commencement of NSW<sup>1</sup> Tender Round 2 – Firming Infrastructure, the Australian Government announced funding support for up to 550MW of additional firming capacity (excluding demand response and gas projects) in the same tender. On 22 November 2023, AEMO Services Limited (ASL) announced the award of a total of six Long-term Energy Service Agreements (LTESAs). Two storage capacity battery projects representing 480 MW (almost 1,800 MWh) of reliable, dispatchable capacity were funded through the CIS.

## CIS SA-VIC Tender

Registrations for the SA-VIC tender commenced on 15 December 2023 and bids closed on 23 February 2024.<sup>2</sup> The tender is seeking to secure an indicative volume of 600 MW of four-hour equivalent dispatchable capacity. The Australian Government intends to allocate 200 MW to each of South Australia, and Victoria, with an additional 200 MW to either South Australia or Victoria based on the assessed merit of projects.<sup>3</sup>

The [Draft Capacity Investment Scheme Agreement](#), including the draft [Tripartite Deed](#) were published with the tender opening. The final project documents will be published prior to the tender stage B opening.

AEMO Limited and its subsidiary AEMO Services Limited (ASL) are currently administering the tender on behalf of the Australian Government.

### 1.1.3 Expanded CIS program

On 23 November 2023, the Australian Government announced the expansion of the CIS target from the previously committed 6 GW of clean dispatchable capacity<sup>4</sup> to a total of 32 GW of both clean dispatchable and renewable capacity to be delivered nationally by 2030. This expansion will also support the Australian Government's target of 82% renewable electricity by 2030.

The expanded total of 32 GW capacity is expected to comprise:

- 23 GW of renewable capacity representing \$52 billion in investment.
- 9 GW of clean dispatchable capacity (3 GW in addition to the 6 GW previously announced) representing \$15 billion in investment.

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<sup>1</sup> Under the NSW Electricity Infrastructure Roadmap.

<sup>2</sup> See [CIS South Australia-Victoria Tender](#) for further information.

<sup>3</sup> [Capacity Investment Scheme South Australia and Victoria Tender Guidelines December 2023](#).

<sup>4</sup> Refer to the August 2023 Capacity Investment Scheme Public Consultation Paper for details of the first stage of the CIS available [here](#).



Combined, the NSW Tender Round 2 – Firming Infrastructure and CIS SA-VIC tenders are expected to account for 1.1 GW of the total 9 GW target for clean dispatchable capacity. The remaining 7.9 GW is planned to be tendered in the expanded CIS program, along with 23 GW for renewable capacity.

For Clean Dispatchable CISA tenders, all projects that did not reach committed status before the scheme's dispatchable announcement on 8 December 2022 will be eligible for consideration. For Generation CISA tenders, all projects that did not reach committed status before the CIS expansion announcement on 23 November 2023 will be eligible for consideration. Further detail on eligibility is in section 4.3.

## Have your say

DCCEEW seeks targeted feedback from stakeholders on key elements in this paper. Please submit your feedback through the Consultation Hub ([Have Your Say](#)) by 5:00pm AEST 25 March 2024.

The department will also conduct a series of on-line stakeholder forums in March 2024. Details of these forums and consultation materials, including this paper, future papers, and any public responses to stakeholder questions, will be posted on the department's Consultation Hub ([Have Your Say](#)) and Capacity Investment Scheme webpage ([Capacity Investment Scheme | energy.gov.au](#)). Stakeholders can also subscribe to receive updates and news related to the CIS directly from the CIS webpage ([Subscribe to Capacity Investment Scheme updates](#)).

# CIS implementation design

This section provides information on the planned approach for implementing the CIS across all jurisdictions and a provisional schedule for upcoming national CIS tenders, with indicative volumes.

## 2.1 Design principles

The CIS provides a national framework to support the rollout of renewable capacity and clean dispatchable capacity across jurisdictions. To support the achievement of the CIS policy objectives, Table 1 displays the framework design principles.

**Table 1 Design Framework Principles**

<b>Maintaining momentum</b>	<p>Support the continued progress and bring forward investment in projects in <b>various stages of development to enable the capacity and generation targets to be achieved by 2030<sup>5</sup></b>.</p> <p>Further details on the development status eligibility requirements are provided in section 3.</p>
<b>Stimulating investment</b>	<p>Provide long-term <b>certainty for financiers through a combination of the long-term financial underwriting offered to Projects, and a clear and transparent tender process used to set key commercial terms in the CIS agreement (CISA)</b>.</p> <p>This is further described in sections 2 and 3.</p>
<b>Complementing existing market operations</b>	<p>Minimise impact on wholesale electricity market functions and associated rules. Apart from a limited set of performance requirements specific to each CISA, the CIS does not seek to impose operational requirements on projects. <b>The CISA will include sufficient incentives to ensure performance requirements are met.</b></p> <p>Project Operators will be able to sign a CISA and other wholesale contracts, such as swap contracts and tolling agreements. The CIS is intending to support further development of these contracts markets.</p>
<b>CIS process and tender product adaptability</b>	<p>Mitigate risks of a disorderly transition by selecting projects that support energy system reliability and lower electricity prices.</p> <p>The process and CISA products will be adaptable with the ability to respond to changing market conditions as the scheme progresses.</p>
<b>Supporting our local communities and first nations people</b>	<p>Facilitate shared benefits to regional communities, support the industries that will drive our future economy and help First Nations people preserve their unique culture and heritage and remain on Country.</p>

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<sup>5</sup> This includes uncommitted and committed projects that reached committed status after the 23 November 2023 expanded CIS announcement.

### **2.1.1 Complementing the operation of Australia’s electricity systems or markets**

The expanded CIS seeks to ensure that new renewable capacity and clean dispatchable capacity enters Australian energy markets with limited to no impact on electricity market functions and associated rules while supporting reliability and affordability. The CIS is intended to support and facilitate Australia’s existing suite of Australian Government and jurisdictional energy policies and markets.

Changes to the National Electricity Rules (NER) that happen over time will apply to CIS projects. For example, changes to the market price cap or access reform initiatives being contemplated by the Australian Energy Market Commission (AEMC) will apply to projects supported by the CIS. Like all generators, CIS projects will remain subject to AEMO directions under the NER.

The CIS is a time-limited scheme which will run tenders through to 2026-27 to deliver projects that start operating by 2030. In parallel, the Australian Government will progress work on the future design of the market beyond 2030. That process will include close engagement with NEM jurisdictions and public consultation.

The CIS will complement other Australian Government, state and territory government policies and actions by businesses and communities to underpin Australia’s transformation to net zero emissions by 2050 and 82 per cent renewable energy in the on-grid electricity sector by 2030.

This includes integration with the delivery of new transmission infrastructure, including through the Australian Government’s \$20 billion Rewiring the Nation program. This new transmission infrastructure will connect Australia’s electricity grids to regions with rich renewable resource potential and reinforce and interconnect the existing network to deliver reliable renewable energy to consumers in cities, towns and regional communities.

The allocation of capacity to be tendered in each jurisdiction through the CIS will also be part of the Australian Government’s negotiation over Renewable Energy Transformation Agreements (RETAs) with state and territory governments to provide a favourable enabling environment for the investment in new renewables projects supported by the CIS and achieve shared objectives in the renewable energy transformation.

In November 2023 the Energy and Climate Change Ministerial Council (ECMC) agreed that CIS investment will continue to be delivered working with state systems, including the NSW Electricity Infrastructure Roadmap (Long Term Energy Service Agreements), the Victorian Renewable Energy Target and the Western Australian Reserve Capacity Mechanism.

In line with the process adopted for the VIC/ SA tender, the department is considering options for the national roll-out with engagement of AEMO Services Limited (the delivery partner for the NSW Electricity Infrastructure roadmap), but tender delivery partner arrangements have not been finalised.

### **2.1.2 CIS product and tender process adaptability**

Certain states and territories have existing schemes in place, and CIS underwriting contracts (CISA products) along with the tender process will be designed to ensure that the CIS complements those schemes and supports state and territory governments to achieve their renewable energy targets.

For projects in NSW, the department’s intention is that CISA products and tenders will be designed to meet the requirements of Long-Term Energy Service Agreements and associated tenders under the Electricity Infrastructure Investment Act 2020 (NSW). This would enable generation project proponents to engage in a single tender for the CIS and the NSW Electricity Infrastructure Roadmap, including those projects seeking access rights in NSW Renewable Energy Zones. Alternatively, if this cannot be agreed in time, to avoid duplication, the first national auction could be conducted in all states except NSW.

Australia’s energy markets are in a period of substantial change. The CIS is designed to accommodate new and changing business models and to provide investors with the confidence to continue to develop projects in this environment of change. The CIS aims to complement the current reliability framework and support the entry of new investments during a period of rapid transformation.

The CISA products will require successful projects to participate in Australia’s electricity markets, ensuring that they add new renewable capacity and clean dispatchable capacity. There are minimal additional requirements imposed on CIS projects and these would be limited to emergencies such as Lack of Reserve (LOR) level 3 events in the case of clean dispatchable capacity.

## **2.2 Proposed CIS tender schedule and allocation**

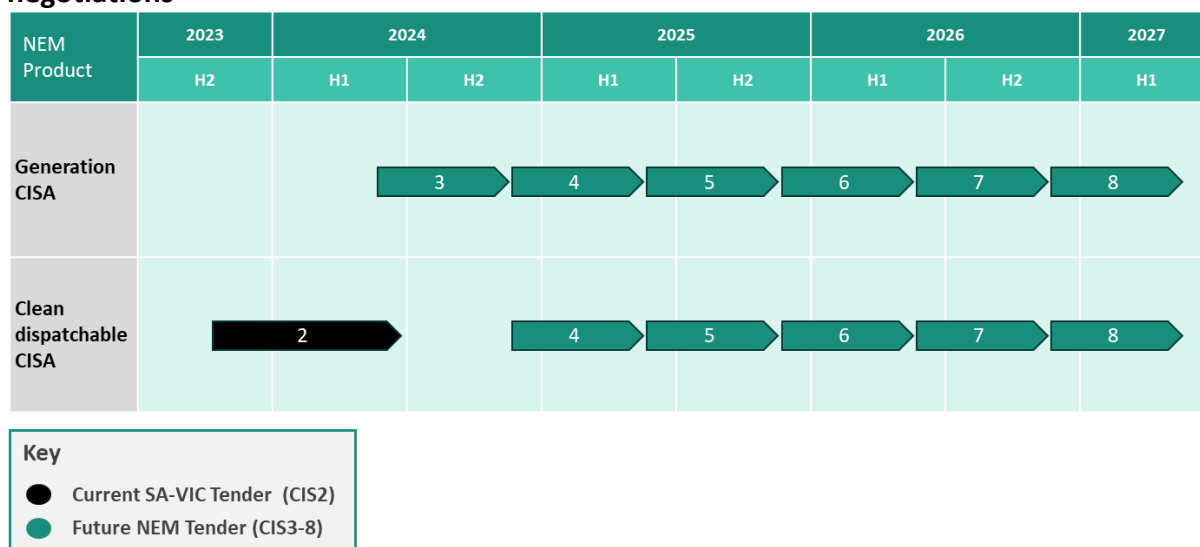
### **2.2.1 Proposed schedule for NEM CIS tenders**

Future CIS tenders are planned to commence from Q2 2024 with regular, competitive tenders held, until 2027. CIS tenders in NEM jurisdictions are expected to commence approximately every 6 months. The planned 2024 CIS tenders will include:

- In Q2 2024, invitation for NEM-wide bids from projects seeking a Generation CISA, with an indicative target of 6 GW renewable capacity
- In Q4 2024, invitation for NEM-wide bids for 4 GW of renewable capacity and 3 GW of dispatchable capacity.

A proposed schedule with indicative dates is shown in Figure 2.

**Figure 2 Indicative tender schedule for NEM CIS tenders by date, subject to RETA negotiations<sup>6</sup>**



The Australian Government’s preferred position is 6-monthly tenders for both renewable capacity and clean dispatchable capacity starting with the fourth tender in Q4 2024, to:

- Enable proponents to tender at a time that best aligns with their project development and financing schedule.
- Avoid excessive bunching of projects and associated stress on supply chains, market processes, and enabling industries.
- Enable easier participation of hybrid dispatchable and variable projects.

It is expected that the process between a tender opening and the announcement of successful projects will take approximately 6-8 months. It is recognised that the proposed schedule of tenders may result in a new tender opening before proponents receive confirmation of whether their bid to the previous tender was successful. Given the magnitude of the scheme, it is considered that a larger number of auctions are needed to help ensure an even spread of projects over the life of the scheme and help proponents manage supply chain and labour force issues.

The risk of additional costs arising from this overlap in bidding periods will be mitigated by limiting the detail required for a Stage A bid. Proponents would have received confirmation of the success of their previous bid before needing to develop their Stage B bid, including the financial bid. (Further details on the assessment process are in sections 4.4.2 and 4.4.3.)

It is intended that the timing of generation tenders in 2024 and 2025 will align with those already scheduled by ASL under the NSW Electricity Infrastructure Roadmap.

<sup>6</sup> Depending on the final tender round outcomes, tenders may expand into 2027.

## HAVE YOUR SAY

### Cadence of tender schedule and products:

We welcome feedback on the proposed scheduling approach, including views on alternative options:

- Would your organisation benefit more from a 6-monthly cycle of simultaneous tenders for both generation and clean dispatchable products, or would an alternating 12-monthly cycle (consisting of one tender every six months, alternating between generation and clean dispatchable products) for each be more desirable?

## 2.2.2 Indicative tender size allocation

The third CIS tender (being the first expanded CIS tender), opening in Q2 2024, is expected to seek bids for 6 GW of renewable capacity across the NEM.

The fourth CIS tender, opening in Q4 2024, is expected to seek nation-wide bids for 4 GW of renewable capacity and 3 GW of dispatchable capacity.

These allocations are subject to the finalisation of RETA negotiations.

Tenders 5-8, opening in 2025 and 2026 will seek bids for the remainder of the total renewable capacity and dispatchable capacity available as well as any capacity that is re-tendered should projects that were successful at earlier tenders fail to fulfil their milestones.

The Tender Guidelines for future CIS tenders will provide further details on the indicative tender size and jurisdictional allocation, based on the outcomes of RETA negotiations with jurisdictions.

As described in the August 2023 Capacity Investment Scheme consultation paper, dispatchable capacity quantities for tenders are expressed in terms of MW of medium storage equivalent capacity. Some technology types will have a reduced contribution to reliability on a per MW basis when compared to medium storage batteries (e.g short duration batteries) and some technologies will have a higher contribution (e.g long duration storage).

## 2.3 Managing risks to contract market liquidity

The CIS design aims to reduce risks for proponents of renewable energy and clean dispatchable projects while preserving existing electricity market signals. Stakeholders have identified concerns that the CIS could therefore dilute incentives for supported projects to participate in contract markets.

Both the Generation CISA and Clean Dispatchable CISA have been designed to preserve incentives for proponents to participate in contract markets. These design considerations include:

- Removing the risk of “double liability” where a proponent may need to make a payment to its contractual counterparty and also face revenue sharing above the ceiling with the Australian Government if electricity prices are high. This would be done by including the net impact of Eligible Wholesale Contracts in the revenue calculation for projects.
- A [90%] revenue sharing below the floor and the annual payment cap would maintain some incentive to sign contracts even below the floor price.
- Projects would have the full incentive to sign contracts between the floor and the ceiling.

- Projects would retain some incentive to sign contracts above the ceiling, although this would be subject to [50%] revenue sharing up to an annual payment cap.
- There are other design features which can be considered including the use of an option structure. This option structure could take various forms, which is further discussed in section 3.4.

These design features are further discussed in Section 3.

As discussed in section 3.3, these design considerations necessitate the requirement that projects be owned by a SPV to enable clear accounting separation of the Project. This may create limitations on the types of contracts that Projects are able to sign or their use for broader Portfolio optimisation.

#### **HAVE YOUR SAY**

##### **Incentives for participation in the contracts market:**

We welcome feedback on risks to contract market liquidity and whether the design elements outlined in this section are sufficient to preserve incentives to participate in the contracts market.



# CISA products

This section provides a summary of the types of revenue underwriting contracts – Generation CISA and Clean Dispatchable CISA (together CISA products) – that are expected to be offered in the national CIS tenders, including mechanisms and key performance requirements.

## 3.1 CISA product types

CIS tenders are expected to include two long-term underwriting CISA products:

**Clean Dispatchable CISA:** to support projects that are registered or intend to be registered with AEMO for the central dispatch process and capable of dispatching as a clean dispatchable generator at a registered capacity of two hours or more. This CISA can have a contract term of up to 15 years.

**Generation CISA:** to support clean renewable projects that are registered or intend to be registered with AEMO for the central dispatch process as a generator. This CISA can have a contract term of up to 15 years.

### 3.1.1 Shared commercial characteristics

The CISA products will share the following commercial characteristics:

- A revenue floor and ceiling, which are bidding parameters in the tender process. The payment mechanisms for the floor and ceiling vary slightly between the Generation CISA and the Clean Dispatchable CISA as described in section 3.2.1 and section 3.2.2 respectively. For the Clean Dispatchable CISA, the bid variables will be expressed based on total project net revenue in dollars (\$). For the generation CISA, the bid variables will be expressed based on net revenue per MWh (\$/MWh) of generation.
- The contract will contain milestone provisions requiring progress of project development to achieve commercial operations, as payments will only commence upon energisation and commercial operation.
- Payments will be calculated and paid every quarter during the CISA support term. The support term will also be a bidding parameter in the tender process and Project Operators may put forward alternate contract terms where improved value for money can be demonstrated.
- To allow transparency in calculating the quarterly revenues, there will be a requirement that the project be owned by a Project Operator that is a Special Purpose Vehicle (SPV) (see the discussion on ownership structure in section 3.3 below).

Detailed commercial terms for the CISA products are outlined in the table below.

**Table 2 Key commercial terms for both CISA products, including bid variables**

Term	Generation CISA	Clean Dispatchable CISA
Project characteristics	The CISA will include a description of the project characteristics (e.g., nameplate capacity, technology). The Project Operator will be required to preserve the agreed project characteristics over the life of the agreement.	
	For a Project assessed as a hybrid project, this will include both generation and storage elements of the Project.	

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Term	Generation CISA	Clean Dispatchable CISA
<b>Support Term (Bid Variable)</b>	Up to a maximum of 15 years.	
<b>Potential Option structure</b>	Potential option structures are being considered for the CIS. This is discussed further in section 3.4	
<b>Payment mechanism (Multiple Bid Variables)</b>	Quarterly payments will be made in the first three quarters. At the end of the financial year, an annual reconciliation payment (Annual Adjustment Payment) will be made, subject to an annual payment cap.	
	All payments will be made according to the Project’s revenue for that period compared to its revenue floor and ceiling, as bid during the tender.	
	<p>The underwriting mechanism will be based on a project’s net revenue, which is the sum of all revenue for the project minus costs from:</p> <ul style="list-style-type: none"> <li>• for storage projects, costs in relation to the import of electricity from the network</li> <li>• costs for Ancillary Services Network Support Services, or System Support Services</li> <li>• any other costs incurred under the National Electricity Rules (excluding any fines or penalties)</li> <li>• any payments under an Eligible Wholesale Contract (excluding liquidated damages, warranty payments, or non-performance payments).</li> </ul> <p>All other operating costs, taxes, fines and penalties, payments to the NEM pool due to negative wholesale energy prices, and debt financing interest and other costs are excluded from the calculation of net revenue.</p>	
<b>Contracted Percentage (Bid Variable)</b>	<p>The CISA may relate to some or all of the Project’s capacity. Where a Project bids and receives a CISA for less than 100% of its capacity, the Contracted Percentage is less than 100%.</p> <p>Where a Project bids and receives a CISA for less than 100% of its capacity, the Quarterly Payment and the Annual Adjustment Payment will be reduced to the percentage of the Project’s capacity covered by the CISA.</p>	
<b>Escalation</b>	The Floor Price and Sharing/Ceiling Price will be bid (\$/MWh) for each supported year. Proponents can incorporate escalation into their bid.	The Floor Price and Sharing/Ceiling Price will be bid for each supported year. Proponents can incorporate escalation into their bid.
<b>Performance pay requirements</b>	<p>The CISA will involve a limited set of performance requirements requiring the Project Operator to:</p> <ul style="list-style-type: none"> <li>• operate the project following best industry practice, including maximising availability of the Project and revenues for the Project; and</li> <li>• respond to price signals in the electricity markets.</li> </ul> <p>Key performance requirements for each CISA product are outlined below. Where these performance requirements are not regularly met, payment rebates and termination rights will apply.</p>	
	<ul style="list-style-type: none"> <li>• Achieve a minimum level of generation (e.g. &gt;75% of P90 each year).</li> </ul>	<ul style="list-style-type: none"> <li>• Performance event: the project must bid at least 50% of its contracted</li> </ul>

Term	Generation CISA	Clean Dispatchable CISA
		capacity during an actual Lack of Reserve (LoR) 3 event. <sup>7</sup> <ul style="list-style-type: none"> <li>Storage capacity: the project must have a tested storage capacity of at least that which it has stated that it would in the CISA schedule for the support year. This allows the project to bid a degradation profile but not to have less storage capacity than agreed.</li> <li>Availability: the project must be available at least 90% during the support year.</li> </ul>
<b>Ownership Structure</b>	For both CISA products, a project must be owned by an SPV that has all the assets required to undertake the project. This SPV must be the Project Operator for the CISA. The Project Operator must be a registered NEM participant and receive all financial value associated with the Project. The Project Operator must be the counterparty to all revenue contracts (e.g. power purchase agreements) associated with the Project. The Project Operator must not carry on any other business other than the Project.	

## 3.2 Payment mechanisms

The payment mechanisms that would apply to each CISA product are described below.

### 3.2.1 Generation CISA

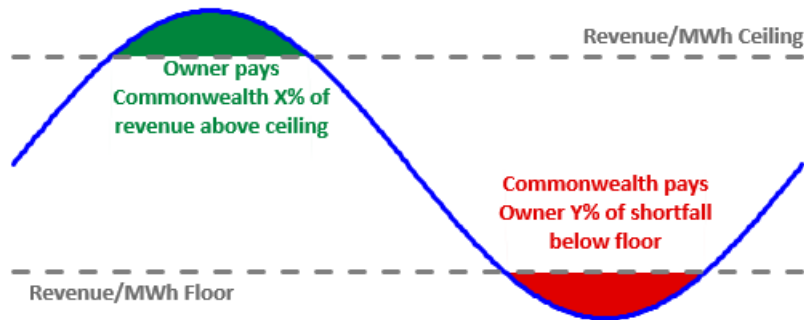
The Generation CISA will provide revenue underwriting for net revenue per MWh of generation sent out by a project. The payment mechanism for the Generation CISA will be similar to the Clean Dispatchable CISA but calculated based on net revenue per MWh (Volumetric Net Revenue) – a bid parameter. This contract structure is depicted schematically in Figure 3.

Net revenues are divided by the generation (adjusted for Marginal Loss Factors and Distribution Loss Factors) sent out by the project in that quarter (in MWh). This incentivises the project to maximise the generation it produces and places any volume risk with the Project Operator who is best placed to manage that risk.

The net revenue per MWh is compared to the floor and ceiling to determine what payments, if any, are required.

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<sup>7</sup> The LOR3 performance requirement has been developed with AEMO and reflects the requirements placed on capacity market mechanisms in international markets. It is acknowledged and understood that the LOR3 performance requirement is distortionary and overrides market price signals. However, it is important that projects receiving financial support prioritise making a system reliability contribution during low probability periods of system stress.

**Figure 3 Generation CISA**

Generation CISAs will have a net revenue per MWh floor and ceiling agreed between the Proponent and the Australian Government. If revenue earned by a project exceeds the net revenue per MWh equivalent to the ceiling, the Project Operator pays the Australian Government an agreed percentage of revenue above the ceiling. The Australian Government would pay the Project Operator when revenue is below the equivalent floor, but not below zero.

A Project Operator's revenue includes all revenues from the following sources:

- Sales of electricity in the NEM wholesale market, plus payments and receipts under Eligible Wholesale Contracts.
- Other sources of off-market revenue generated by the Project Operator, including payments for Green Products such as Large-Scale Generation Certificates and payments for Capacity Products, as applicable. Under the SA-Vic CISA green and capacity product revenue are proposed to be deemed at the market price for each product that is created or referred to the project over the support year.
- All other revenue accrued by the Project Operator.
- Detailed definitions will be included for net revenue earned by generators from wholesale revenues and Eligible Wholesale Contracts. For the avoidance of doubt, a Project Operator's revenues are also expected to include revenue from participation in NEM contracts markets and all other sources of revenue generated by the Project Operator.

Revenue received by the SPV does not include payments to the NEM pool arising as a result of pool prices below \$0/MWh. This is intended to disincentivise this behaviour and reduce costs to taxpayers.

A key feature of the proposed mechanism is that, unlike traditional contracts for difference (CfDs), Project Operators remain able to participate in the wholesale contracts markets via Eligible Wholesale Contracts.

#### **Eligible Wholesale Markets Contract**

As outlined in the payment mechanism, Eligible Wholesale Contracts are included in the calculation of \$/MWh earned by the Project Operator.

Eligible Wholesale Contracts must:

- be agreed on an arm's-length basis;

- where the Eligible Wholesale Contract is between related parties, the Project Operator must establish and maintain reasonable evidence that the Eligible Wholesale Contract was agreed on an arm's-length basis;
- not expose the Project Operator to make net swap payments where negative prices occur;
- be for 1 year or more; and
- not be for the primary purpose of changing payments under a CISA.

The inclusion of Eligible Wholesale Contracts is intended to allow projects to participate in the wholesale contracts market and continue to receive support where project revenues are below the floor revenue. Some limitations have been included to ensure the objectives of the CISA are preserved.

Where an Eligible Wholesale Contract is disallowed for any reason, the Quarterly Total Revenue will be assumed to be the greater of:

- 1) revenue received under the Eligible Wholesale Contract; and
- 2) revenue received had the electricity in each trading interval been sold at the wholesale price (excluding any trading intervals with a price below zero).

#### **HAVE YOUR SAY**

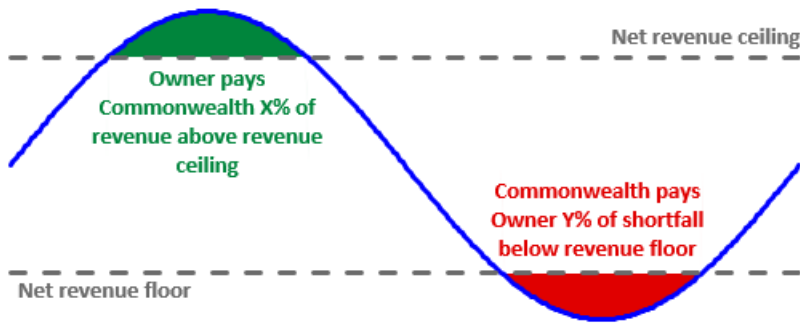
##### **Generation support mechanism:**

We welcome feedback on the proposed generation support mechanism on the following:

- Would the proposed Eligible Wholesale Contract requirements present a significant barrier to your organisation participating in the wholesale contracts market with a generation project with a CISA?
- Would the proposed negative price provisions present a significant barrier to any renewable capacity business model considered by your organisation? Could these provisions have any negative impact on project NEM bidding behaviour?

### **3.2.2 Clean Dispatchable CISA**

As outlined in the draft CISA published as part of the CIS SA-Vic tender, the payment mechanism for the Clean Dispatchable product is based on a comparison between the Project Operator's net revenue and an Annual Revenue Floor and Annual Revenue Ceiling, both being bid variables, and three performance requirement rebates.

**Figure 4 Revenue underwriting design instrument**

Project Operators under Clean Dispatchable CISAs will have a net revenue floor and ceiling agreed upon between the Proponent and the Australian Government. If revenue earned by a Project Operator exceeds the revenue equivalent to the ceiling, the Project Operator pays the Australian Government an agreed percentage of revenue above the ceiling. The Australian Government would pay the Project Operator when revenue is below the equivalent floor, but not below zero.

A Project Operator's net revenue includes all revenue from:

- NEM spot and ancillary market participation.
- Any offtake contracts and other sources of off-market revenue generated by the project, such as green products and capacity products, as applicable, net of the permitted costs under the contract, such as costs of importing electricity from the market. Green and capacity product revenue are proposed to be deemed at the market price for each product that is created or referred to the project over the support year.
- All other revenue accrued by the Project Operator because of the project.

### 3.3 Ownership structure

For both CISA products, a project must be owned by a Special Purpose Vehicle (SPV) that has all the assets required to undertake the project. The SPV must be the Project Operator for the CISA. The Project Operator must be a registered NEM participant and receive all financial value associated with the Project. The Project Operator must be the counterparty to all revenue contracts (e.g. power purchase agreements) associated with the Project. The Project Operator must not carry on any other business other than the Project. The rationale for this requirement includes the following considerations:

- To establish a clear and transparent structure for managing finances, while effectively segregating the risks and liabilities associated with a particular project. This approach ensures clarity and safeguards the interests of all parties involved.
- The Project Operator assists in the calculation of the project's net revenue at the end of each year, which is summarised in a report to the Australian Government for assessment before true-up payment.
- To manage wholesale spot price volatility risks, participants in the NEM and the WEM can enter financial contracts. Accordingly, traditional Power Purchase Agreements (PPAs) and financial contracts interact with the wholesale spot market and NEM and WEM settlements and can cover an entity's portfolio of assets, rather than being exclusive to an individual asset. As such,

to achieve the policy objectives of encouraging new investment in clean dispatchable capacity and renewable capacity, there is a need to ensure accounting of all revenues for Eligible Wholesale Contracts is quarantined to the project awarded the CISA. Eligible Wholesale Contracts are contracted and agreed on an arms-length basis. Including such contracts is intended to allow projects to participate in the wholesale contracts market and continue to receive support for projects below the Net Revenue Floor / Volumetric Net Revenue Floor.

- This has created the need for an SPV ownership structure. Requiring a project to be owned by an SPV allows for clear accounting separation of the Project from broader portfolio optimisation because all contracts accounted for are entered into by the project only.
- To facilitate clear accounting and ensure the separation of the project from broader portfolio optimisation, unequivocally ensuring that all contracts entered into are exclusively for the designated project and are accurately accounted for.

Inflation risk is expected to remain with the Project Operator. This may be managed through the tender structure by seeking flat nominal bids or fixed escalation bids.

For renewable capacity proponents where this SPV requirement is a poor fit for their business model, alternative bids with commercial departures excluding contract market revenue and potentially other revenue sources may be able to be considered.

#### **HAVE YOUR SAY**

##### **Special Purpose Vehicle requirement:**

We welcome feedback on the proposed Special Purpose Vehicle requirement on the following:

- Would the proposed Special Purpose Vehicle requirement present a major barrier to your organisation's business model for renewable capacity and clean dispatchable capacity projects?

### **3.4 Alternative options for Generation CISA design**

As discussed in section 2.3, key design features of the Generation CISA and the Clean Dispatchable CISA have been driven by the importance of preserving incentives to participate in contract markets. However, there are other possible design features for the Generation CISA that would also preserve incentives for participants to participate in contract markets. It does not appear feasible for these design features to apply to the Clean Dispatchable CISA, however, alternative design features for the Generation CISA may include:

- the use of an ongoing option structure, similar to what is used in NSW Long-Term Energy Service Agreements.
- Volumetric exclusion of generation sent out (in MWh) that falls under an Eligible Wholesale Contract (rather than including the contracted capacity in the net revenue calculation)

These design features would remove the requirement that generation projects be owned by an SPV, although there would still be a need for contracts to be on an arm's length basis if the option is exercised and for acceptable and transparent accounting which distinguishes the Project from other activities of the relevant entity.

#### **Potential Option Structure**

Under this approach, during the Contract Term, the Project Operator would have the option (i.e. the right but not the obligation) to enter into a floor for the period of one Financial Year (Option Period).



By exercising an option, the Generation Project Operator would be guaranteed an annual fixed price (\$/MWh) for the volume of electricity that does not fall under an Eligible Contract. Or in the case of a Clean Dispatchable Project Operator, they are guaranteed a minimum revenue amount.

By exercising an option for the first time, the Project Operator would enter into an obligation to share revenues above an annual ceiling price with the Australian Government for the remainder of the Contract Term for the volume of electricity that does not fall under an Eligible Contract.

During exercise periods, the Project Operator would be required to physically deliver any green certificates (such as Large-Scale Generation Certificates) to the Australian Government, in order to reduce ambiguity about the cash equivalent payments for green certificates.

This contract structure deals with the impacts on contract market liquidity outlined in section 2.3 by providing Project Operators with a choice not to exercise the option if they can achieve a better price in the electricity contract market. The generation contract structure uses a swap similar to corporate Power Purchase Agreements. So even if a Project Operator does exercise the option, the Australian Government has an opportunity to “on sell” the swap into the electricity contract market.

The option structure has been used in three tenders under the NSW Electricity Infrastructure Roadmap to support five renewable energy generation projects with a combined 2.1GW of capacity and eight clean dispatchable projects with a combined 1.5GW of capacity. For more information see <https://amoservices.com.au/products/ltesa>

### **Potential Volumetric Exclusion of Contracted Generation**

Under this approach, Quarterly payments would be based on the revenue earned from generation sent out (in MWh) during that period, but only for generation volumes that do not fall under an Eligible Contract. At the end of the financial year, an annual reconciliation payment will be made (Annual Adjustment Payment), subject to an annual payment cap.

The application of the Contracted Percentage to the Quarterly Payment will be applied in the MWh Generated calculation. This means that generation volume will be allocated to the CISA on a proportional, *pari passu* (equal footing) basis. The MWh Generated definition will exclude volumes that fall under an Eligible Contract.

### **HAVE YOUR SAY**

#### **Alternative options to preserve incentives for generators to participate in wholesale contracts markets**

We welcome feedback on the alternative options to preserve incentives to participate in wholesale contracts markets, including:

- Whether an option structure would be of value for the generation CISA
- Views on the inclusion of Eligible Wholesale Contract revenue into the net revenue calculation vis-à-vis the volumetric exclusion of Eligible Wholesale Contract revenue
- Views on the potential requirement for the Project Operator to physically deliver any Green Products to the Australian Government

# CIS tender design and assessment process

This section outlines the tender governance and decision-making, high-level eligibility and merit criteria, and assessment process, including guidance for generation and clean dispatchable capacity projects. This is only an indication and is subject to confirmation for each particular tender round in the corresponding tender guidelines, which should be referred to in formulating proposals.

## 4.1 Tender governance and decision-making

The CIS will be implemented through an open, transparent tender process. The tender governance and decision-making framework is summarised below.



**Table 3 Tender governance framework**


Australian Government	Tender Delivery Partner
Sets the Policy Objectives, the objective of the tender, commercial in-confidence financial budget, the tender size and the terms of the CISA products.	Administers this competitive tender process (including communicating with Proponents)
The Minister for Climate Change and Energy (the Minister), on behalf of the Australian Government, will select the Proponents and projects to receive revenue support under the CIS, based on the recommendation of the Tender delivery partner.	Make recommendations consistent with the Tender Guidelines to the Australian Government.

## 4.2 Tender process overview

The design of the tender process for the national CIS tenders is expected to broadly align with the tender design and assessment processes outlined in the [CIS SA-VIC Tender Guidelines](#) and illustrated in Figure 5. CIS Tender Guidelines will be published for each tender to accommodate different tender specifications, account for the relevant jurisdictions and/or product characteristics.

**Figure 5 Tender process stages**

Key stages in Tender process	
 <p><b>Stage A</b> – Project Bid assessment</p>	<p><b>Project Bids</b> are assessed against the Proponent and Project eligibility criteria. Proponents and Projects for the Tender must satisfy the eligibility criteria before being competitively assessed against the merit criteria.</p> <p>The purpose of the Project Bid assessment is to select a shortlist of Project Bids to progress to Stage B – Financial Value Bid.</p>
 <p><b>Stage B</b> – Financial Value Bid</p>	<p><b>Financial Value Bids</b> will be assessed against the Financial Value Bid merit criteria to determine a Financial Value Shortlist to progress to Stage C – Recommendations.</p>

Key stages in Tender process	
 <p><b>Stage C</b> – Due diligence &amp; Recommendations</p>	<p>Due diligence may be undertaken.<sup>8</sup></p> <p>A recommended list of Bids will be provided to the Australian Government based on the outcomes of the merit assessment, due diligence and CISA contract finalisation.</p>

## 4.3 Stage A – Project bid: eligibility assessment

Eligibility criteria will be used to assess minimum standards for participating in a CIS tender. This supports consistency and transparency of decision-making and cost savings for Proponents by clearly indicating the requirements for being eligible to participate in a CIS tender.

### 4.3.1 Eligibility criteria

While the majority of eligibility criteria are expected to be the same across CIS tenders, the final set of eligibility criteria may vary to accommodate different tender specifications and will be outlined in the relevant CIS Tender Guidelines. Potential proponents should rely upon the relevant CIS Tender Guidelines for the eligibility criteria for each tender round.

#### Location and ownership

CIS tenders are expected to be conducted across multiple jurisdictions. The project must be located and registered in the relevant jurisdiction(s) specified for each tender.

Both publicly and privately owned projects will be eligible for CIS tenders. However, the project must be owned by a Special Purpose Vehicle (SPV) that has all the assets required to undertake the project. The SPV must be the Project Operator of the CISA. The Project Operator must be the registered NEM participant. See section 3.3 for ownership structure. Potential proponents should rely upon the relevant CIS Tender Guidelines for the relevant merit criteria for each tender round.

#### Progress beyond ‘early development’

To avoid perverse incentives, and enable proponents to continue development of projects, projects that have progressed beyond early development will remain eligible if they had not been identified as committed or existing in the AEMO Generation Information page before the relevant CIS announcement.

Projects will be eligible for the scheme if they have both:

- Progressed beyond ‘early development.’
- Not reached ‘committed’ status before certain Australian Government announcements.

<sup>8</sup> Note: During the assessment process due diligence may be undertaken on Bids at any time.

This also includes projects that have already reached financial close.

- For Clean Dispatchable CISA tenders, this means eligible projects will not have reached committed status before the scheme’s dispatchable announcement on 8 December 2022.<sup>9</sup>
- For Generation CISA tenders, this means eligible projects will not have reached committed status before the CIS expansion announcement on 23 November 2023.<sup>10</sup>

### Technology contributing to zero emissions

CIS tenders will support renewable capacity and clean dispatchable capacity projects but will otherwise be technology neutral. Projects must be eligible to be registered with AEMO as either a clean dispatchable or generation resource, and eligible projects must be consistent with the broader emissions reduction objectives of the Australian Government<sup>11</sup>.

When registering a project to participate in a tender, the fuel source and technology of all registered generating units must be submitted. This can include renewable sources, hydro, and ecologically sustainable biomass and waste.

Tender Guidelines will set out specific eligibility criteria related to emissions for each tender round; however, it is expected that eligible projects will need to demonstrate the requirements set out in the table below.

**Table 4 Eligibility requirements for technology contributing to zero emissions**

Clean Dispatchable CISA	Generation CISA
<p>The project’s fuel source must either:</p> <ul style="list-style-type: none"> <li>• be an eligible renewable energy source, as described in Section 17 of the <b>Renewable Energy (Electricity) Act 2000</b> (Commonwealth) and eligible to create large-scale generation certificates under that Act; or</li> <li>• charge from the NEM; or</li> <li>• a combination of the above.</li> </ul> <p>Projects that:</p> <ul style="list-style-type: none"> <li>• are virtual power plants, demand response or other virtual aggregation and flexible loads may be eligible in future CIS tenders (see below) or</li> <li>• use native forest wood waste are not eligible.</li> </ul>	<p>The project must be:</p> <ul style="list-style-type: none"> <li>• be an eligible renewable energy source, as described in Section 17 of the <b>Renewable Energy (Electricity) Act 2000</b> (Commonwealth) and eligible to create large-scale generation certificates under that Act; and</li> <li>• be eligible to be registered as a generation resource with AEMO.</li> </ul> <p>Projects that:</p> <ul style="list-style-type: none"> <li>• use native forest wood waste are not eligible.</li> </ul>

<sup>9</sup> Australian Government [Ministerial Announcement of the CIS](#), 8 December 2022.

<sup>10</sup> Australian Government [Ministerial Announcement of expanding the CIS](#), 23 November 2023.

<sup>11</sup> Incorporation of an emissions reduction objective into the National Electricity Objective is currently underway. See [here for further information](#).

Virtual power plants, demand response, and other virtual aggregation and flexible load technologies will not be eligible for the upcoming April/May generation CIS tender. However, the intention is to include these technologies in future clean dispatchable tenders.

### **Registration with AEMO and minimum project capacity**

Projects will be required to be registered, or intend to register, with AEMO and participate in the central dispatch mechanism used in the relevant Australian electricity grid. The requirement to participate in central dispatch ensures that projects supported by the CIS support reliability and affordability for consumers. Further requirements on the form of AEMO registration required will be detailed in the relevant Tender Guidelines.

It is expected that all projects will be required to have an AEMO registered capacity equal to or greater than 30MW. This will balance the costs of participating in the tender, the costs and complexity of evaluating projects, and ensure that projects supported through the CIS contribute to reliability that can be evidenced through market modelling.

### **Expected development status of land tenure and connection approvals**

It is expected that the eligibility requirements in each jurisdiction will include specific baseline eligibility criteria related to the progress of the projects including:

- Land tenure – projects would need to demonstrate secure access to land to be eligible in a CIS tender. This could include a combination of land ownership, leases and options to lease.
- Grid connection – projects would need to demonstrate that they are in the process of seeking grid connection agreements. Projects may be expected to have submitted a Grid Connection Enquiry form to AEMO.

### **Technology, timing and delivery risk**

The CIS is a program to improve reliability in Australia's electricity grids. CIS tender Eligibility and Merit Criteria will focus on projects that adopt established, proven technologies where the delivery risks associated with the project, and the project's commissioning date, are reasonably assessable. The CIS complements other Australian Government programs, such as those run by ARENA, which aim to support the demonstration of emerging technologies.

Tenders may require targeted commissioning dates, and this could constrain eligibility in some circumstances. For example, the targeted commissioning date of 2027 adopted for the SA-VIC tender reflects the timing of reliability requirements in those jurisdictions. Projects unable to meet these requirements will be ineligible.

### **Participation in other schemes**

Projects that are already, or will be, in receipt of revenue support from a government may not be eligible for the CIS tenders. Revenue support refers to periodic and/or ongoing payments from a CISA or mechanisms that are similar to the CIS product.

The purpose of this eligibility requirement is to ensure that projects do not access duplicate sources of government support.

The following forms of government support are not expected to be considered revenue support, and projects will remain eligible for CIS tenders:

- Certificates created under an Australian Government certificate scheme, including large-scale generation certificates (LGCs) received through participation in the Renewable Energy Certificate Market and the Renewable Energy Guarantee of Origin (REGO) scheme.
- Certificates received from complementary jurisdictional schemes such as the WA Reserve Capacity Mechanism. It is noted that not all jurisdictional certificate schemes will be complementary (e.g. the NSW peak demand reduction scheme may not be complementary). The Tender Guidelines will provide further guidance on state schemes that would be eligible.
- Investment received from an Australian Government or state or territory government body (e.g. the CEFC).
- Grants from an Australian Government (e.g. ARENA) or state or territory government body, whether repayable or not.
- Other forms of financial support from state or territory or Australian Government where the financial support is stipulated to be complementary to the CIS in the relevant Tender Guidelines.

### **Compliance with law**

To be eligible to participate in a CIS tender a Proponent and project will need to be compliant with applicable state, territory and Commonwealth law, including any requirements around social license and local economic benefits, and may be asked to produce evidence of compliance. This may include providing valid Foreign Investment Review Board (FIRB) approvals (or a clear pathway to obtaining approvals), compliance with FIRB conditions, compliance with modern slavery legislation, and Australian tax law.

## **4.4 Merit assessment**

This section provides an overview of how projects could be merit assessed during the CIS tenders. The purpose of merit assessment is to select projects that can demonstrate the highest levels of merit compared to other projects in the tender. Successful projects will be required to demonstrate strong performance against all the merit criteria outlined in the relevant CIS Tender Guidelines.

The approach to the merit assessment, including the merit criteria, may be amended to reflect the evolving objectives of tenders as the CIS is delivered over time, or account for changes in requirements for specific tenders (including different product characteristics). Weighting may be assigned to the merit criteria at either Stage A or Stage B. Baseline requirements for each merit criteria may also be adopted to ensure all projects supported by the CIS demonstrate minimum standards across all criteria.

### **4.4.1 Approach to system benefits assessment**

To deliver on the CIS objectives, the CIS tender assessment process will have a strong focus on a project's contribution to system reliability and other system impacts. For this purpose, the framework for assessing system benefits is expected to consider three elements:

- 3) System reliability: This focuses on the project's contribution to increasing system reliability. This is expected to focus on the projected reduction in unserved energy (USE), based on a similar

principle to the modelling conducted for AEMO’s ESOO report, although the approach may be varied. Projects considered to significantly avoid USE will score higher.

- 4) **Delivery of renewable energy:** This focuses on supporting the system’s ability to maximise delivery of energy to support the achievement of the 82% renewable energy target. This may include consideration of a project’s direct impact through addition of renewable generation or a project’s indirect impact through reducing congestion/curtailment such that other projects can dispatch additional MWh. A project’s location, technology type and capacity factor will be relevant.
- 5) **Additional system benefits:** This focuses on any supplementary advantages to the system that a project can offer will be considered favourably. This may include, but is not limited to, provision of system strength services and system restart ancillary service capabilities.

The system benefits framework may be adapted for each tender to account for changes in system requirements over time, as well as product type. All three elements will be assessed for both CISA product types.

For example, the Tender Guidelines for the SA-VIC tender describes the approach that will be adopted for the first Clean Dispatchable CISA tender, although this may be refined based on learnings for future Clean Dispatchable CISA tenders. For Generation CISA tenders, the application of the framework will be tailored to account for the different product characteristics. Further details will be provided in the May 2024 Tender Guidelines.

A project’s contribution to system benefits will be assessed throughout the tender process. This is expected to include (but not limited to):

- **Stage A:** the framework will be applied to distinguish between projects that are most beneficial to the energy system and those that represent a notably poor or net negative system impact and therefore are not aligned with the objectives of the CIS.
- **Stage B:** elements of the framework will be accounted for in the assessment of financial value and may also be further considered in the shortlisting process to maximise benefits, including financial and reliability benefits, and minimise overall costs to consumers, in line with the CIS objectives.

#### **4.4.2 Stage A - Project bid assessment**

Stage A – Project Bid assessment will assess a project’s technical, commercial and community engagement merit. This assessment stage is expected to be the same for both CISA products.

##### **Project technical and commercial viability**

Proponents will be required to demonstrate the project’s technical and commercial credibility by providing evidence of its progress against key development milestones. This may include:

- Technical information about the project’s connection point, connection type, project size and technology type.
- Additional information about the project’s impact on the electricity system and/or system benefits, such as technical reports and/or independent studies.
- Progress to securing all relevant land, environmental, planning and connections approvals.
- Progress to securing all relevant construction procurement and financing documents.



- Demonstrated understanding of the key project risks to timely project completion and appropriate mitigation measures.

Successful projects will be required to commit to delivering on their target final investment decision (FID) or financial close and commercial operation date (COD) dates as contracted milestones, which may be subject to additional requirements set out in the relevant Tender Guidelines.

Under this merit criteria, projects will be assessed on their ability to be operational by their target COD. Projects that are able to provide detailed evidence to demonstrate the Proponent's ability to deliver to each milestone, with clear articulation of its strategies for mitigating delivery risk, are likely to be assessed more favourably under this criteria.

### **Proponent capability**

A Proponent's capability, capacity and track record to deliver projects of a similar size and type will be assessed alongside other key delivery partners involved in the project delivery. This is to ensure that projects that are successful in gaining government support are delivered by reliable organisations with relevant experience in delivering similar projects. This may include:

- Proposed contracting structure, contract terms, or quality of role and scope descriptions.
- Procurement strategy, identification of long lead items and key suppliers.
- Track record in securing finance.

### **Australian Supply Chain, Community and First Nations engagement**

Proponents and projects will be assessed on their approach and quality of engagement with Australian supply chains, local communities and First Nations people. This may include:

- Demonstrated efforts to understand Australian supply chain capabilities and to support the development and use of local supply chains in both CAPEX and OPEX project plans.
- Demonstrated understanding of and commitment to worker outcomes, including pay and conditions and training including apprenticeships.
- Demonstrated understanding of local community and stakeholders, including stakeholder mapping.
- Summary of community and First Nations consultations that have occurred to date.
- Evidence of having considered or incorporated community and First Nations groups' feedback during project design, development and future implementation.
- Summary of planned engagement activities in the future.
- Approach to local community engagement activities and benefit sharing that reflect the potential future impacts on the community.
- Adherence to any future community engagement guidelines or standards for renewable energy proponents as defined by the Australian Government and/or state and territory governments.
- Summary of planned approach to decommissioning and remediation.

It is important to note that State and Territory governments have the flexibility to create local requirements for community and First Nations engagement through regulation or legislation. These requirements could vary across jurisdictions and could include geographic restrictions based on renewable energy zones, or targets for categories of workers. The CISA is expected to support this by requiring compliance with any jurisdictional-based requirements.

The national consultation on the First Nations Clean Energy Strategy has identified clear themes regarding First Nations participation and benefit sharing, including examples from international jurisdictions, such as Canada, and domestically in the resource sector. Understanding options to support greater participation is encouraged.

The recently concluded Community Engagement Review conducted by the Australian Energy Infrastructure Commissioner recommends that a voluntary renewable energy developer community engagement ratings scheme be established and that a positive rating be a requirement for a project to receive government support, including through the CIS. This is currently under consideration by the Energy and Climate Ministerial Council.

#### **4.4.3 Stage B - Financial Value Bid**

Stage B of the merit assessment will require shortlisted projects to submit pricing bid variables, commercial departures and social licence commitments. This includes assessment against the CIS policy objectives to support system reliability at a minimal cost to taxpayers and to the benefit of electricity consumers. This assessment will take a broad perspective on value to energy consumers and taxpayers, including system costs and infrastructure cost implications, not simply the lowest cost per unit of energy.

##### **Financial value**

###### *Generation Projects:*

Projects will be assessed on their value to taxpayers and electricity consumers against forecast cost to the Australian Government across a range of future market scenarios, taking into account the dispatch-weighted prices (i.e. the value of energy) likely to be received by projects. The assessment may consider modelling of several future wholesale electricity market scenarios based on technical information provided by projects and will include consideration of reliability benefits.

###### *Clean Dispatchable Projects*

A similar approach as outlined above will be applied for Clean Dispatchable Projects. However, the Project's impact on reliability (measured predominantly through a reduction of expected Unserved Energy) and on broader system benefits will be weighted more heavily. Furthermore, the Project's ability to reduce market price volatility will be considered.

##### **Commercial departures**

Stage B will also assess the competitiveness of a project's key bid variables, proposed commercial risk allocation and additional administrative burden from the proforma Project Documents.

##### **Social licence commitments**

Proponents and projects will be assessed on their social licence commitments and shared benefits established, or to be established within the project's community. These assessments may consider if the project has:

- Incorporated local community interests in the design process.
- Committed to include local employment and training of apprentices.
- Demonstrated benefits to the Australian supply chain market.

This merit criterion may also consider the degree to which a project demonstrates substantial development of strategies and activities to ensure the successful implementation of their social licence commitments.

#### **HAVE YOUR SAY**

##### **Merit and eligibility criteria:**

We welcome feedback on the proposed eligibility and merit criteria.

## **4.5 Approach to assessing hybrid projects**

Under the CIS, hybrid projects are only intended to be eligible for the generation CISA and are expected to be defined as co-located generation and energy storage assets where both assets:

- Share a common connection point.
- Are registered (or intend to register) with AEMO as an Integrated Resource Provider.

For clarity, projects that combine multiple generation assets (e.g., wind and solar), or multiple energy storage assets (e.g., BESS and pumped hydro), that share a common connection point are not expected to be considered a hybrid project. Instead, these projects will be treated as either a single generation or clean dispatchable project for assessment and contracting.

The generation CISA will accommodate multiple hybrid contract configurations and may require amendments and additional obligations to enable novel hybrid project configurations.

### **4.5.1 Associated assets**

If a project elects to bid as a hybrid project, the project's energy storage asset would automatically be defined as an Associated Asset and the generation asset (subject to the generation asset meeting the required eligibility criteria) would be eligible for a generation CISA. The Associated Asset would not be eligible for a Clean Dispatchable CISA.

The benefits of bidding as a hybrid project, despite only the generation asset receiving underwriting support, will be that the Associated Asset will be able to provide system reliability and other system benefit services which will contribute toward a more competitive merit assessment compared with non-hybrid projects. The disadvantage to bidding as a hybrid project include the expected increased price bid variables that may be required by project Proponents to meet their required return on investment in both the generation and Associated Asset. The interplay between these criteria will determine how a hybrid project performs compared to non-hybrid projects.

The CIS intends to incentivise hybrid projects given the materially higher benefits to the market and consumers. This approach is considered to deliver more firm renewable energy into the Australian energy markets at lower cost to taxpayers and the assessment approach would be designed to recognise the value of this benefit. Additional information on the assessment of reliability benefits will be provided in the relevant Tender Guidelines.

### **4.5.2 Hybrid project bidding options**

If a project bids as a hybrid project it will be contractually obliged to deliver both the generation and the energy storage assets. If a Proponent is unsure of its intention or ability to deliver the associated asset, and therefore does not wish to contractually commit to its delivery, then the benefits of the

associated asset will not be included in the merit assessment. Such a project would be assessed as a standalone generation project.

#### **HAVE YOUR SAY**

##### **Participation of hybrid projects:**

We welcome feedback on the approach to the inclusion of hybrid projects:

- Would the proposed approach enable the better participation of hybrid projects in CIS tenders?
- Would your organisation consider bidding for separate clean dispatchable capacity and generation CISA for the components of a hybrid? Would the proposed schedule that includes simultaneous clean dispatchable capacity and generation tenders (detailed in section 1.1.3) support this option?

## **4.6 Approach to assessing dispatchable renewable generation projects**

Project Proponents should carefully consider whether the fuel source and technology type of their project would compete well against batteries and other generation assets (such as wind and solar) against the Merit Criteria discussed in Section 4.2.

The assessment of reliability benefits for dispatchable projects bidding for a Clean Dispatchable CISA will vary depending on the technology type of the generating unit. It is acknowledged that the dispatch profiles of e.g., Energy from Waste (EfW) and biomass projects will differ from conventional battery energy storage systems (BESS) given exposure to higher price events.

Additional information on the assessment of reliability benefits of differing dispatchable technologies will be provided in the relevant Tender Guidelines.

# Appendix 1 – Key changes made in response to feedback on the August 2023 CIS public consultation

The key issues raised in the consultations to date and how these have been addressed in the latest tender (SA-VIC tender) are outlined below. Public submissions to the August 2023 consultation are available on the [department's website](#).

Overall, there were 68 submissions from respondents.

## **Minimum duration**

The August 2023 Consultation Paper asked for views on whether there should be a minimum duration for dispatchable capacity, what this duration should be, and how it would be evaluated.

Submissions largely supported a minimum duration requirement, with a range of views on the specifics. Implementing a 2-hour duration eligibility requirement, similar to the NSW LTESA firming tenders, was most supported. In response, the SA-VIC tender has eligibility criterion of minimum duration of 2 hours continuous dispatch at a project's registered capacity (EC9).

## **Renewable Energy Zone requirement or preference**

The August consultation paper noted that one aspect of incorporating state based social license policies as part of the consideration during the merit assessment could include requiring projects to locate within a state-declared renewable energy zone.

Feedback was generally opposed to any requirement to locate within a renewable energy zone (REZ). Consequently the SA-VIC tender does not include any REZ requirement over and above requirements in individual jurisdictions, although project location and social license will form part of the merit assessment.

## **Floor price escalation**

A number of submissions to the August consultation paper expressed that there should be a mechanism for escalation of the floor price. In response to this feedback, the draft CISA for the SA-VIC tender enables bids to include values of key financial bid parameters for each year.

## **Payment caps**

Several submissions to the August consultation paper expressed concern on potentially uncapped payments to the Australian Government from the collar design. The draft CISA for the SA-VIC dispatchable tender introduced an "annual payment cap" that limits both the support and revenue sharing that an operator incurs in a single year; this cap is bid by operators as single value for both support and revenue sharing.

### **Revenue clawback percentage**

There was a range of feedback in the consultation on the revenue clawback percentage, with support for reducing the percentage. In response to this feedback the SA-VIC tender has reduced the clawback percentage from 75% to 50%.

### **Option structure**

Several stakeholders suggested the introduction of an option structure for floor payments. The current Design Paper includes a discussion of possible option structures and seeks further targeted feedback.